



Apple Inc. (AAPL)

Updated November 9th, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$183	5 Year CAGR Estimate:	0.1%	Market Cap:	\$2.8 T
Fair Value Price:	\$126	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	11/10/23
% Fair Value:	145%	5 Year Valuation Multiple Estimate:	-7.1%	Dividend Payment Date:	11/16/23
Dividend Yield:	0.5%	5 Year Price Target	\$177	Years Of Dividend Growth:	11
Dividend Risk Score:	A	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Apple revolutionized personal technology with the introduction of the Macintosh in 1984. Today the technology company designs, manufactures, and sells products such as iPhones, iPads, Mac, Apple Watch and Apple TV. Apple also has a services business that sells music, apps, and subscriptions. The company was founded in 1976, is headquartered in Cupertino, CA and is valued at \$2.8 trillion.

On November 2nd, 2023, Apple reported results for the fourth quarter of fiscal year 2023 (Apple's fiscal year ends the last Saturday in September). It grew its sales 3% over last year's quarter thanks to record sales of iPhone for a fourth quarter and all-time high Service sales. The iPhone segment generated 49% of total sales while Service sales comprised 25% of total sales. Earnings-per-share grew 13%, from \$1.29 to \$1.46, and exceeded the analysts' consensus by \$0.07. Notably, Apple has missed the analysts' estimates only once in the last 20 quarters. Apple provided guidance for higher iPhone sales but flat revenue in 2024. We view this guidance as too conservative and expect record earnings of \$6.65.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.61	\$2.31	\$2.08	\$2.30	\$2.98	\$2.97	\$3.28	\$5.61	\$6.11	\$6.13	\$6.65	\$9.33
DPS	\$0.45	\$0.50	\$0.55	\$0.60	\$0.68	\$0.75	\$0.80	\$0.85	\$0.90	\$0.94	\$0.96	\$1.82
Shares¹	23,465	22,315	21,345	20,505	19,020	17,773	16,977	16,865	16,326	15,672	15,600	13,500

Apple has grown its earnings-per-share by an eye-opening 16.0% per year on average over the last decade. This is certainly an impressive growth rate, although it is lower than the growth rates Apple produced in the years prior to 2013. The larger the bottom line gets, the harder it becomes to grow at a very fast pace.

Going forward, Apple's earnings growth will be driven by several factors. One of these is the ongoing cycle of iPhone releases, which creates lumpy results. In the long run, Apple should be able to grow its iPhone sales, albeit in an irregular fashion. Moreover, in emerging countries where consumers have rising disposable incomes, Apple should be able to increase the number of smartphones it is selling in the coming years. In addition, Apple's Services unit, which consists of iTunes, Apple Music, the App Store, iCloud, Apple Pay, etc., has recorded a significant revenue growth rate in recent years. Services revenues grow at a fast rate and produce high-margin, recurring revenues.

Another factor that has played a role in the past is the shrinking share count. Due to its immense cash flows, Apple can repurchase hundreds of millions of shares. Apple should continue to lower its share count, further boosting EPS.

The COVID-19 pandemic did not affect the underlying earnings power of the company. We expect Apple to grow its earnings-per-share by 7% per year on average over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	13.0	12.8	12.6	14.9	15.3	16.1	24.7	23.4	25.5	26.4	27.5	19.0
Avg. Yld.	2.2%	1.7%	2.1%	1.8%	1.5%	1.6%	1.0%	0.6%	0.6%	0.6%	0.5%	1.0%

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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In the 2011 through 2016 stretch, shares of Apple routinely traded with an average price-to-earnings multiple between 12- and 13-times earnings. In the years since, the earnings multiple has expanded tremendously. With shares now trading at 27.5 times expected earnings, we believe there is the potential for a significant valuation headwind in the years to come. This view could be too conservative if the valuation remains elevated, but we prefer to be on the safe side. If the stock trades at a price-to-earnings ratio of 19.0 in 2029, it will incur a -7.1% annualized valuation drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	28%	22%	26%	26%	23%	25%	24%	15%	15%	15%	14%	19%

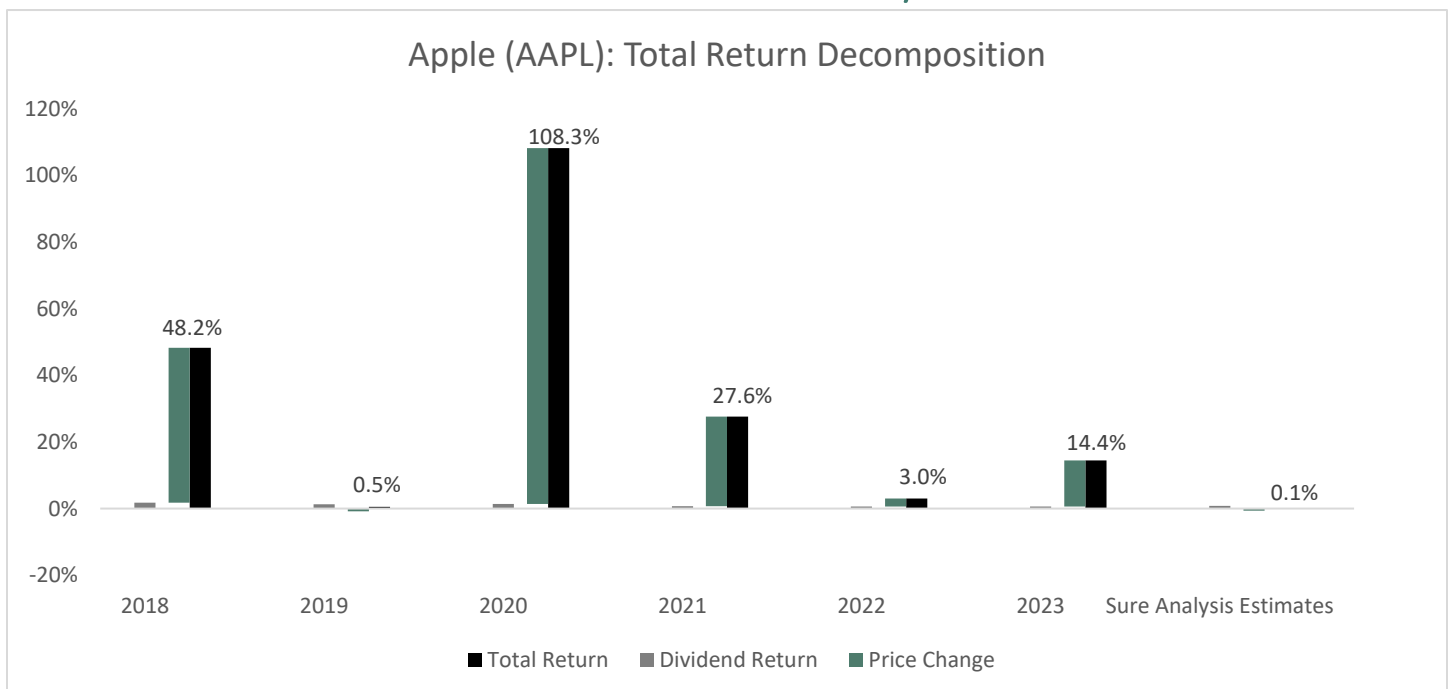
Apple started paying a dividend in 2012. Since then, the dividend has been increased regularly, but at a pace slower than earnings-per-share growth, which is why the dividend payout ratio has remained low. Given also the rock-solid balance sheet of Apple, its dividend is safe.

Apple's brand is admired around the globe, and together with Samsung the company basically earns all the profits in the top end smartphone market. In addition, Apple's Services will bring in an increasing stream of recurring revenues. During the last financial crisis, Apple's profits rose, but that was during the hyper-growth phase. Since Apple is still highly dependent on sales of relatively high-cost smartphones, a major economic crisis could hurt its profits.

Final Thoughts & Recommendation

The stock of Apple has rallied 46% this year thanks to the strong business performance of the tech giant. We are enthused on several fronts, including an extraordinary business story, a growing Services segment and a balance sheet that provides safety. However, in our view, the current valuation remains a hindrance. The stock could offer just a 0.1% average annual total return over the next five years, as its 7.0% growth of earnings-per-share and a 0.5% dividend could be partly offset by a potential valuation headwind of -7.1%. Due to its rich valuation, the stock receives a sell rating. The stock may remain richly valued for a considerable period but its valuation may be compressed if earnings growth decelerates.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	182.8	233.7	215.64	229.2	265.6	260.2	274.5	365.8	394.3	383.3
Gross Profit	70537	93626	84263	88186	102B	98392	105B	153B	171B	169B
Gross Margin	38.6%	40.1%	39.1%	38.5%	38.3%	37.8%	38.3%	41.8%	43.4%	44.1%
SG&A Exp.	11993	14329	14194	15261	16705	18245	19920	21970	25090	24932
D&A Exp.	7946	11257	10505	10157	10903	12547	11060	11280	11100	11519
Operating Profit	52503	71230	60024	61344	70898	63930	66290	109B	119B	114B
Op. Margin	28.7%	30.5%	27.8%	26.8%	26.7%	24.6%	24.1%	29.8%	30.2%	29.8%
Net Profit	39510	53394	45687	48351	59531	55256	57410	94680	99800	96995
Net Margin	21.6%	22.8%	21.2%	21.1%	22.4%	21.2%	20.9%	25.9%	25.3%	25.3%
Free Cash Flow	49900	69778	52276	50803	64121	58896	73360	92950	111B	99684
Income Tax	13973	19121	15685	15738	13372	10481	9680	14530	19300	16741

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	231.84	290.35	321.69	375.32	365.73	338.52	323.9	351	353	353
Cash & Equivalents	13844	21120	20484	20289	25913	48844	38020	34940	26650	29965
Accounts Receivable	17460	16849	15754	17874	23186	22926	16120	26280	28180	29508
Inventories	2111	2349	2132	4855	3956	4106	4061	6580	4946	6331
Goodwill & Int. Ass.	8758	9009	8620	8015	---	---	---	---	---	---
Total Liab. (\$B)	120.29	170.99	193.44	241.27	258.58	248.03	258.6	287.9	302.1	290.4
Accounts Payable	30196	35490	37294	49049	55888	46236	42300	54760	64120	62611
Long-Term Debt (\$B)	35.30	64.33	87.03	115.68	114.48	108.05	112.4	124.7	120.1	111.1
Total Equity (\$B)	111.55	119.36	128.25	134.05	107.15	904.88	63340	63.1	50670	62146
LTD/E Ratio	0.3164	0.539	0.6786	0.863	1.0685	1.19	1.72	1.98	2.37	1.79

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	18.0%	20.5%	14.9%	13.9%	16.1%	15.7%	17.3%	28.1%	28.4%	27.5%
Return on Equity	33.6%	46.2%	36.9%	36.9%	49.4%	55.9%	73.7%	147.4%	175.5%	171.9%
ROIC	27.5%	32.3%	22.9%	20.8%	25.3%	26.3%	30.5%	51.8%	55.7%	56.4%
Shares Out.	23,465	22,315	21,345	20,505	19,020	17,773	16,977	16,860	16,330	15,813
Revenue/Share	7.46	10.09	9.80	10.91	13.28	13.99	15.66	21.69	24.15	24.24
FCF/Share	2.04	3.01	2.43	2.46	3.21	3.17	4.19	5.51	6.83	6.30

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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